



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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October 27, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **General Relief Opportunities for Work Over Billings (Board Agenda Item #33, May 11, 2004)**

We have completed a review of the Department of Community and Senior Services (DCSS) General Relief Opportunities for Work (GROW) program billings to determine the amount DCSS over billed the Department of Public Social Services (DPSS) for administering the GROW program. In March 2004, DPSS discovered that DCSS had been double billing DPSS for administrative costs since the start of the program in February 1999. DPSS previously included these costs in its administrative claims to the State and was reimbursed for a portion of the double billings.

As directed, we also determined the causes for the excess billings and have recommended changes in DCSS' accounting and billing practices to increase the accuracy of future GROW and other DCSS program billings.

Summary of Findings

We determined that DCSS double billed DPSS approximately \$2.5 million for the five years ended (FY) June 30, 2003. The exact amount of the double billings cannot be determined until DCSS gathers the documentation for FY's 1998-99, 1999-00, and 2000-01. Any double billings for FY 2003-04 are being resolved by DPSS and DCSS fiscal staff.

During our review, we also determined that DCSS paid, but did not report to DPSS, approximately \$1 million in payments to GROW contractors (i.e., program costs). This underreporting of program costs should offset a portion of the double billed costs and help reduce the amount DPSS could potentially have to return to the State. DCSS

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needs to immediately perform a 100% review of its GROW billings to determine whether any additional over billings to DPSS exist.

Recently, we received new allegations that DCSS may have also incorrectly billed other programs that it administers. As part of the Auditor-Controller's on going technical assistance to DCSS, we will help the Department review its GROW billings and investigate the allegations that the Department incorrectly billed other programs it administers. We will also assist them in implementing recommendations contained in the audit reports issued by KOG Associates and blueCONSULTING, as appropriate.

Background

The GROW Program is an employment services program for employable General Relief participants. GROW provides job training for General Relief participants, assisting them to transition from welfare dependency into the labor market. DCSS administers the Program through an MOU with DPSS. DPSS pays DCSS an administrative fee of approximately 10% of the program's annual budget. GROW services are provided via a network of service providers under contract with DCSS. DPSS refers employable General Relief participants to the contractors.

For the period beginning February 1, 1999 through June 30, 2003, DCSS received \$38,032,572 for direct program costs and \$3,727,893 in administrative costs from DPSS.

Comments and Recommendations

DCSS' GROW Billing Procedures

Since the program's inception in February 1999 and prior to DPSS' identification of DCSS double billings in March 2004, DCSS Budget and GROW Program staffs prepared monthly claims of program costs and administrative costs for reimbursement by DPSS. Specifically, DCSS Budget staff prepared claims of administrative costs based on a summary of service units, provided by Program staff, multiplied by an administrative reimbursement rate contained in the MOU. For the same period, GROW Program staff prepared claims of program costs based on the service units each contractor stated it provided in the period, multiplied by a combined administrative and program reimbursement rate contained in the MOU. Program staff should have claimed program costs based solely on a direct program reimbursement rate. The claiming responsibilities at DCSS and the review processes at DPSS were separated at the time between two sections for both Departments, resulting in Program units not knowing that Budget units were separately claiming for administration.

Overpayment of GROW Administrative Charges

To determine the actual amount of GROW administrative charges DCSS over billed DPSS, we recalculated the program and administrative charges allowable based on the

number of GROW participants served and compared the amount to the amount billed to DPSS for administrative charges and program costs.

We determined that DCSS double billed DPSS \$2,489,935 in administrative charges for the five fiscal years (FY) ending June 30, 2003. We also tested all payments made to contractors for FYs 2001-02 and 2002-03 and noted errors that resulted in more than \$1 million in program costs (i.e., DCSS payments to GROW contractors) that were paid but not reported to DPSS. Based on this, the amount DCSS' double billed to DPSS may be reduced if the program costs can be offset.

Because required documentation was not readily available, our review of DCSS' administrative costs was limited to FYs 2001-02 and 2002-03. However, to determine the amount over billed to DPSS, and to also determine if all program costs were properly accounted for, DCSS should immediately review all GROW documentation for the FYs 1998-99, 1999-2000, and 2000-01. In reviewing program costs, the Department should verify that DPSS was billed for all payments to contractors, contractors were not double paid, and DPSS was billed only once for each contractor invoice. DPSS management should adjust their State claim for the GROW program once the actual amount of the overpayment has been determined.

Recommendations

- 1. DCSS management require fiscal staff to perform an immediate 100% review of FY 1998-99, 1999-2000, and 2000-01 GROW billings.**
- 2. DCSS management consult with Auditor-Controller management to discuss the procedures to be performed by DCSS staff for their review and present the findings to the Auditor-Controller for review.**
- 3. DPSS management adjust their State claim for the GROW program once the actual amount of overpayment has been determined.**

Accounting for the Overpayment

DCSS has set up a separate fund for GROW in the Countywide Accounting and Purchasing System (CAPS). GROW monies are transferred from DPSS to DCSS and DCSS pays GROW contractors using the monies in DCSS' GROW fund. We noted that DCSS does not reconcile the program revenues and expenditures for GROW, or any other program, to CAPS. DCSS staff assumed that all monies received had been paid to contractors and/or all monies paid to contractors have been claimed/received.

As a General Fund department, any excess monies DCSS may have received for GROW, at the end of each fiscal year, were used to reduce the Department's Net County Costs (NCC). We reviewed DCSS' NCC for the last five years and noted that DCSS did not return any material amounts to the General Fund. Therefore, it appears

that the Department was meeting their NCC budget and any excess monies received helped reduce DCSS' NCC.

If DCSS reconciled GROW receipts and expenditures posted to CAPS, the Department would have identified the administrative overcharges. Standard reconciliation procedures require the Department to research and resolve all reconciling differences in a timely manner.

DCSS management should require fiscal staff to perform monthly reconciliations of administrative/program expenditures and revenues for each program monthly and to resolve reconciling differences within 30 days.

Recommendations

DCSS management:

- 4. Require fiscal staff to reconcile program and administrative revenue and expenditures for each program monthly.**
- 5. Ensure that reconciling items are reviewed and researched within 30 days.**

Billing Procedures

Prior to the identification of the overpayment, DCSS' program staff prepared two cost summary reports on a monthly or sometimes quarterly basis. One cost summary report listing the number of participants serviced by the contractor times the billing rate indicated on the MOU (which included administrative charges) was sent to DCSS Fiscal Accounting Section. The same program staff sent the second cost summary report indicating the administrative charges for the same period to DCSS Fiscal Budget Section. DCSS' Fiscal Accounting and Budget sections would each create billing documents based on the reports received and bill DPSS.

DCSS Fiscal Accounting and Budget sections were not aware that they were both billing DPSS for GROW administrative costs. To ensure that the problems with inaccurate billings identified in this report do not occur, DCSS management needs to ensure that program staff understand the billing methods outlined in MOUs and contracts. DCSS management should also require program staff to prepare only one cost summary report per program and forward the report to fiscal staff to prepare one billing document for both program and administrative charges. In addition, DPSS should ensure that billing documents are accurate and that the Department is billed only once for services received during each billing period.

Recommendations

6. **DCSS management ensure that program staff understand the billing methods outlined in MOUs and contracts.**
7. **DCSS management require program staff to prepare only one cost summary report per program.**
8. **DPSS management ensure that billing documents are accurate and that the Department is billed only once for services received during each billing period.**

Cost Allocation

DCSS and DPSS were interested in knowing if DCSS was fully recovering its actual administrative costs through the administrative fee agreed to in the GROW MOU. However, during our review, we determined that DCSS was not allocating administrative expenditures in accordance with the Department's Cost Allocation Plan. KOG Associates, Inc. also noted this same issue in its February and July 2003 report to DCSS. More recently, blueCONSULTING, in its DCSS management audit report, dated July 12, 2004, noted problems with the Department's cost allocation methodology. These reports recommend that DCSS develop procedures to ensure that staff properly classify administrative costs in accordance with the Department's Cost Allocation Plan.

In our opinion, if implemented, the recommendations contained in the above mentioned reports should enable the Department to properly allocate its administrative costs. As part of the Auditor-Controller's on-going technical assistance to DCSS, we will work with DCSS staff to implement the recommendations contained in the KOG and blueCONSULTING reports, as appropriate.

REVIEW OF REPORT

We thank DCSS and DPSS management and staff for their cooperation and assistance during our review. On September 15, 2004 and September 22, 2004, we discussed the results of our review with DPSS and DCSS management, respectively. The Departments' responses (attached) indicate agreement with all recommendations.

If you have any questions, please call me, or your staff may call Maria Oms at (213) 974-8303.

JTM:MMO:EB

Attachments

c: David E. Janssen, Chief Administrative Officer
Cynthia Banks, Chief Deputy, Department of Community and Senior Services
Bryce Yokomizo, Director, Department of Public Social Services
Raymond G. Fortner, Chief Deputy County Counsel
Violet Varona-Lukens, Executive Officer
Public Information
Audit Committee



CYNTHIA D. BANKS
Chief Deputy

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October 20, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zey Yaroslavsky
Supervisor Michael D. Antonovich

From: Cynthia D. Banks *CDB*
Chief Deputy Director

Subject: **GENERAL RELIEF OPPORTUNITIES FOR WORK (GROW)
OVERBILLINGS – RESPONSE TO AUDITOR-CONTROLLER'S
REPORT**

The Auditor-Controller (A-C) prepared a report that identified its findings as a result of the GROW administrative review. The review resulted in a determination that the Department of Community and Senior Services (CSS) overbilled for administrative and program costs since inception of the program in February 1999.

This letter is the departmental response to the A-C's review and indicates the actions taken or to be taken by CSS to address the findings. CSS' primary goal is to institute better administrative and fiscal controls to mitigate the possibilities of such incidents occurring in the future. The responses outlined in this memorandum are delineated according to those described in the A-C's report (Attachment A):

Overpayment for GROW Administrative Charges

1. *CSS management require fiscal staff to perform an immediate 100% review of FY 1998-99, 1999-2000, and 2000-01 GROW billings.*

During the course of the review, CSS staff cooperatively worked with the A-C to provide supporting documentation for each of the Fiscal Years. Due to lack of adequate controls and records retention in the department, some of the records were not available for the A-C review. Actions to be performed subsequent to this report will require retrieval of documents (contractor invoices and internal vouchers). However, it is noted that some of the records for the time periods in question may not be available.

Due to the limited documentation, CSS may require cooperation from the Department of Public Social Services (DPSS) and the A-C to retrieve

documentation for the above periods. Since the reconciliation would involve a substantial amount of staff time, CSS' anticipated timeframe for completion would be within six (6) months after the date of this letter.

2. *CSS management consult with Auditor-Controller management to discuss the procedures to be performed by CSS staff for their review and present the findings to the Auditor-Controller for review.*

CSS concurs with this recommendation. CSS will present the outline of the procedures within ten days after this response.

3. *DPSS management adjust their state claim for the GROW program once the actual amount of overpayment has been determined.*

This action is dependent on a final determination of the potential liability. The administrative function of the program will be transferred to DPSS as of January 1, 2005. All necessary adjustments to the State's claim will be initiated either by DPSS or in conjunction with DPSS.

Accounting for Overpayment

4. *Require fiscal staff to reconcile program and administrative revenue and expenditures for each program monthly.*

Beginning FY 2004-05, greater communication is being facilitated between the Budget and Assistance Units within CSS. Part of the GROW overbilling was a result of insufficient communication flow between Budget/Program Accounting and Program staff. The Program Accounting Section has employed the following controls:

- a. The Internal Voucher submitted to DPSS is now prepared based upon actual paid costs that are posted to CAPS. The administrative costs are based upon the predetermined rates outlined in the MOU multiplied by the number of enrollments in any given month provided by the program staff.
 - b. Supporting documentation will be provided to DPSS with the monthly billing reports (Attachments B and C).
5. *Ensure that reconciling items are reviewed and researched within 30 days*

As is the customary fiscal practice, any unreconciled items will be reviewed and researched as soon as the situation arises, but within 30 days, using a newly developed form (Attachment D). All discrepancies, either program or administrative, will be brought to the attention of the Program Accounting Manager or the Budget Officer.

Billing Procedures

6. *CSS management ensure that program staff understands the billing methods outlined in MOUs and contracts.*

CSS management will ensure that the appropriate staff is provided a copy of the MOU and close coordination between CSS Budget and Program Accounting is maintained. Program and Budget Management will ensure alignment with the MOU prior to approving any Internal Vouchers.

7. *CSS management require program staff to prepare only one cost summary report per program.*

CSS Program Accounting has developed single cost summary reports (Attachments B and C) that reflect the unit cost, extended cost and total costs for all GROW services. This cost summary report is attached to the Internal Voucher as source documentation.

8. *DPSS management ensure that billing documents are accurate and that the Department is billed only once for services received during each billing period.*

CSS proposed to DPSS to establish a single Departmental Service Order (DSO) for reimbursement of both administrative and program costs. Near the end of Fiscal Year 2003-2004, CSS provided the new schedule to DPSS when billing discrepancies were first recognized. However, in FY 2004-05, DPSS requested that two (2) separate DSOs be established because DPSS administrative and program staff had separate areas of responsibility. Nonetheless, CSS Program Accounting staff will continue to provide the cost summary report to reflect billed DPSS charges.

Cost Allocation Plan

The cost-allocation methodology has been revised to the one-tier method based on direct program salaries only as of July 1, 2004. The A-C staff, who were assigned to CSS to provide oversight of the fiscal operations, have reviewed and tested the mathematical accuracy of the revised methodology and found it to be appropriate (Attachment E). A copy of the A-C's summary of the CSS Cost Allocation System and Status Report dated September 7, 2004 is attached (Attachment F).

In addition, as of August 2004, all administrative Internal voucher billings need to be approved by the Program Manager administering the program prior to being forwarded for processing by fiscal or budget staff.

Other controls

An integral part of the cost allocation plan is the assurance that all staff time is accurately reported. As an administrative control, CSS has employed a department-wide

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policy that requires management to review all cost statements for accuracy and immediate resolution of any discrepancies (Attachments G and H).

We appreciate the assistance of the A-C in coordinating the audit efforts of the GROW overbillings. In addition, we also appreciate the efforts of DPSS management who has played an integral role in assisting our Department during this review. We are making every effort to resolve this issue expeditiously so that final figures may be discussed with DPSS and presented to the State for claim adjustment.

Should you have questions, please contact Josie Marquez, Assistant Director, Workforce Development Branch at (213) 738-3175 or me at (213) 637-0798.

Thank you.

Attachments
P:\GROW\ACResponseOverbillv3.doc

CB:JM:
YD:CH:EW

c: J. Tyler McCauley, Auditor-Controller
Bruce Yokomizo, Department of Public Social Services
Josie Marquez, Community and Senior Services

County of Los Angeles
DEPARTMENT OF PUBLIC SOCIAL SERVICES

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BRYCE YOKOMIZO
Director



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October 27, 2004

J. Tyler McCauley
Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, California 90012-2766

Dear Mr. McCauley:

**GENERAL RELIEF OPPORTUNITIES FOR WORK (GROW) OVER BILLINGS
(BOARD AGENDA ITEM #33, MAY 11, 2004)**

Enclosed is my Department's corrective action response to the two recommendations directed to DPSS contained in the Auditor-Controller's report on the recent review of the Department of Community and Senior Services' GROW program billings.

We reviewed the report and agree with both recommendations. The corrective actions for the two recommendations are targeted for implementation by December 31, 2004.

If you have any questions regarding our response, please have your staff contact Gail Dershwitz at (562) 908-5879.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Bryce Yokomizo'.

Bryce Yokomizo
Director

BY:ml

Enclosure

ENCLOSURE

**GENERAL RELIEF OPPORTUNITY FO WORK (GROW) OVER BILLINGS
(BOARD AGENDA ITEM #33, MAY 11, 2004)**

RECOMMENDATIONS/CORRECTIVE ACTIONS

RECOMMENDATION (3)

DPSS management adjust their State claim for the GROW program once the actual amount of overpayment has been determined.

RESPONSE

DPSS agrees with the recommendation. DPSS will make adjustments to the State claim on our next supplemental claim.

Implementation target date: December 31, 2004

RECOMMENDATION (8)

DPSS management ensure that billing documents are accurate and that the Department is billed only once for services received during each billing period.

RESPONSE

DPSS agrees with the recommendation. DPSS will issue a memo to reiterate the current policy to ensure that all contract billings and internal vouchers received by the Department are reviewed and approved by the contract manager before payments are processed.

Implementation target date: November 30, 2004